Energy Savings Performance Contracting
Guidelines for State Agencies

Part 7
Funding of Performance Contracts

Various sources of funding are available to state agencies for performance contracts. One of the most commonly used is the Master Lease Purchase Program (MLPP) administered by the Texas Public Finance Authority. Another source is the LoanSTAR fund administered by the State Energy Conservation Office. The following document provides summary information on these commonly-used financing programs along with website references.

Master Lease Purchase Program Overview

www.tpfa.state.tx.us/masterlease.aspx

The Master Lease Purchase Program ("MLPP") is a lease revenue financing program established in 1992, primarily to finance capital equipment acquisitions by state agencies. Under the program, the TPFA borrows money to pay for an agency's equipment or other project by issuing tax-exempt revenue commercial paper notes. The agency and the TPFA enter into a lease pursuant to which TPFA takes title to the equipment or other project and leases it to the agency who is required to make lease payments to TPFA. TPFA uses the lease payments to repay the principal and interest on the commercial paper notes. When the lease is fully paid, the agency receives title to the equipment or other financed project. An agency may pay off its lease at any time without penalty.

Who may use MLPP?

MLPP is available to any state agency. A "State Agency" is any board, commission, department, office, agency, institution of higher education, or other governmental entity in the executive, judicial, or legislative branch of state government. (See, Texas Gov't Code, § 1232.003.)

What may be financed?

MLPP may be used to finance a state agency's acquisition of equipment that costs at least $10,000 and has a useful life of at least three years. Individual items may be bundled and financed in one purchase as long as the value of the individual item is at least $100. In other words, an acquisition of equipment may be financed if the total amount of the one contract or purchase order is for at least $10,000. (Since this is the acquisition of "equipment" as a general rule, the contract will be in the form of a standard purchase order and the amount of that one purchase order has to be $10,000 or more.)

"Equipment" means any "fixed asset, other than land or a building, used by a state agency to conduct state business,"... including computer equipment. Computer equipment includes any automated information technology system and computer software.

Other projects, such as real estate or construction, may be financed through MLPP if the specific project has been authorized by the Legislature and approved for MLPP financing by the TPFA Board.

<u>Bond Review Board Approval</u>

A lease for an amount of $250,000 or more or for a term of 5 years or more requires Bond Review Board ("BRB") approval. The agency is responsible for submitting its own application and obtaining approval of the BRB. However, as the BRB's current application form requires the attachment of an amortization schedule prepared by TPFA, the agency should notify TPFA MLPP Program Administrator of its intent to seek BRB approval as soon as practicable.

LoanSTAR Program Overview

www.seco.cpa.state.tx.us/ls/

The Texas LoanSTAR (Saving Taxes and Resources) Program is state-administered revolving loan program that is legislatively mandated to be funded at a minimum of $95 million at all times. The program's revolving loan mechanism allows borrowers to repay loans through the stream-of-cost savings generated by the funded projects.

Projects funded through the LoanSTAR Program include, but are not limited to, energy efficient lighting systems; high efficiency heating, ventilating, and air conditioning systems; computerized energy management control systems; boiler efficiency improvements; energy recovery systems; and building shell improvements.

The LoanSTAR Program will also fund facilities' equipment commissioning projects. The commissioning process involves identifying opportunities for improving systems operations and how these systems can be optimized.

Interest rates for the LoanSTAR Program are based on several factors, which include money market rates and LoanSTAR administrative cost. Rates are evaluated and set every fiscal year from 9/01 – 8/31.

The Texas LoanSTAR Program is a viable option for financing performance contract projects for all public entities.

At a minimum, the following information must be submitted for review in order to be eligible to receive LoanSTAR funding for an Energy Savings Performance Contract:

1. Contract between Borrower and ESCO
2. Utility Assessment Report prepared in accordance with ESPC Guidelines, Part 5
3. Measurement and Verification Plan prepared in accordance with ESPC Guidelines, Part 6
4. Sample Periodic Utility Savings Report
5. Third party independent review certifications

At the present time, LoanSTAR loans must meet the following criteria:

1. Payback for projects in aggregate may not exceed ten years.

2. Simple payback for any project may not exceed the expected life of the project.

3. Loans may not exceed $5,000,000.